

Why Costs Matter: Manager Fee Transparency

Frances Barney, CFA
BNY Mellon
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Globalization of Financial Regulatory Policy

- Global regulatory change, transparency and disclosure continues to support trend towards increased transparency in the asset management industry
- Following the global financial crisis, political support for tighter oversight of financial services have lead to more regulatory policy with continued persistence since 2010
- Important regulatory policy in major capital markets:
 - North America – Dodd-Frank, SEC, and International Financial Reporting Standards (IFRS)
 - EMEA – Markets in Financial Instruments Directive, revised (MiFID II), Packaged Retail Investment and Insurance-based Product Key Information Document (PRIIP KID), Undertakings for Collective Investments in Transferable Securities (UCITS)
 - APAC/LatAM – BRICS countries are driving toward increased governance and continued adoption of developed market standards (e.g. Basel principles)

Ongoing Regime-shift: Investors continue to be focused on performance and how it relates to risk, governance and transparency



Focus on Fees

- Fees are a quantifiable metric relevant to investors and directly relate to performance
- Investors want a total plan view of fees across their publically traded portfolio as well as their private assets, despite diversity of vehicles (SMAs, commingled investments, co-investments, private equity and real estate) on both gross and net of fee basis
 - Focus by industry associations (e.g. the Institutional Limited Partners Association (ILPA) Fee Transparency Initiative)
 - Legal requirement in some states
- Number of challenges to provide this oversight:
 - Disclosure of fee metrics not uniform (fees for performance, management fees and other expenses)
 - Definition of fee metric not standardized
 - Calculation of fees vary by investment



Separately Managed Accounts

- Transparent fee structures, visible fee payments
- Basis point fees
- Market value tiers
 - Large mandates lead to lower fees
 - Concentration of managers
 - Unitization approaches
- Payment of manager fees
 - Accruals
 - Portfolio vs cash account
- Cash flows
 - Agree impact of manager fees



Commingled Funds

- Nominally transparent fee structures
 - Known but less visible than Separately Managed Accounts
- NAV – fees have already been deducted
 - Reduction in units
 - Reduction in unit value
- Gross vs Net of Fees Performance



Private Investments

ILPA Fee Template

The screenshot displays an Excel spreadsheet and an 'Import Manager Stated Figures' dialog box. The spreadsheet shows financial data for 'Anaheln Venture Partners IV' with columns for QTD, YTD, and Biwa Incentive. The dialog box shows a 'Manager Stated Figures' table with columns for QTD, YTD, and ITD, and rows for Fees and Incentive.

	QTD	YTD	Biwa Incentive
Beginning NAV - Net of Incentive Allocation	\$45,967,000	\$16,146,000	\$4
Contributions - Cash & Non-Cash	0	6,000,000	38,000,000
Distributions - Cash & Non-Cash (paid/deferred)	1,200,000	6,000,000	19,000,000
Total Cash / Non-Cash Flows (contributions, less distributions)	(1,200,000)	0	19,000,000
Net Operating Income (Expense)			
Management Fees - Gross of Offsets, Waivers & Rebates			
Management Fee Rebate			
Partnership Expenses - Total			
Partnership Expenses - Accounting, Administration & IT			
Partnership Expenses - Audit & Tax Preparation			
Partnership Expenses - Bank Fees			
Partnership Expenses - Custody Fees			
Partnership Expenses - Due Diligence			
Partnership Expenses - Legal			
Partnership Expenses - Organization Costs			
Partnership Expenses - Other Travel & Entertainment			
Partnership Expenses - Other			
Total Offsets to Fees & Expenses (applied during period)			
Other Categories			
Advisory Fee Offset			
Broker/Deal Fee Offset			
Transaction & Deal Fee Offset			
Director Fee Offset			
Monitoring Fee Offset			
Organization Cost Offset			
Placement Fee Offset			
Other Offset			
Reconciliation for Unapplied Offset Balance (if/when)			
Unapplied Offset Balance (if/when)			
Plus: Total Offsets to Fees			
Less: Total Offsets to Fees			
Unapplied Offset Balance (if/when)			
Total Management Fees & Partnership Expenses, Net of Offsets			
Fee Waiver			
Interest Income			
Dividend Income			
Interest Expense			
Other Income/Expense			
Total Net Operating Income / (Expense)			
Placement Fees			
Realized Gain / (Loss)			
Change in Unrealized Gain / (Loss)			
Ending NAV - Net of Incentive Allocation			
Accrued Incentive Allocation			
Incentive Allocation - Paid			
Accrued Incentive Allocation			
Accrued Incentive Allocation			
Ending NAV - Gross of Account			
A.J Commitment Reconciliation:			
Total Commitment:			
Beginning Unfunded Commitment:			
Less Contributions			
Plus Rescindable Distributions			
Less Expired/Released Commitments			

	QTD	YTD	ITD
Fees			
Management Fees (Gross of Offsets, Waivers and Rebates)	-187500	-750000	-6625000
Management Fee Rebate	0	0	0
Partnership Expenses - Total	-48000	-154780	-548429
Total Offsets to Fees and Expenses (applied during the period)	82600	346500	1538521
Total Management Fees and Partnership Expenses (Net of Offsets and Rebates, Gross of Fee Waiver)	-152900	-558280	-5634908
Incentive			
Accrued Incentive Allocation - Starting Period Balance	-4750000	-3750000	0
Incentive Allocation (paid during the period)	50000	250000	1250000
Accrued Incentive Allocation - Periodic Change	-300000	-1500000	-6250000
Accrued Incentive Allocation - Ending Period Balance	-5000000	-5000000	-5000000

Source: Burgiss



Private Investments

ILPA Fee Template Categories

The Management Fee categories are:

- Management Fees – Gross of Offsets, Waivers and Rebates
- Management Fee Rebate
- Partnership Expenses – Total
- Total Offsets to Fees & Expenses (applied during the period)
- Total Management Fees & Partnership Expenses, Net of Offsets & Rebates, Gross of Fee Waiver

The Incentive Fee categories are:

- Accrued Incentive Allocation – Starting Period Balance
- Incentive Allocation – Paid during the Period
- Accrued Incentive Allocation – Period Change
- Accrued Incentive Allocation – Ending Period Balance

These values are asked to be supplied by the GP for three periods: Quarter-to-Date, Year-to-Date, and Inception-to-Date.

Source: Burgiss.com (<https://www.burgiss.com/private-i-platform/2019/1/15/new-capability-management-fees-and-incentives-capture>)



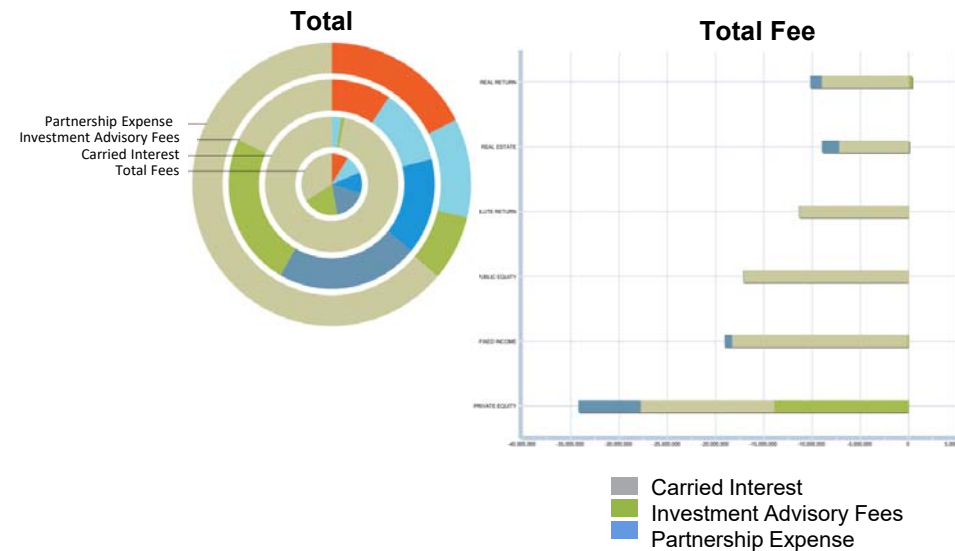
Manager Oversight

Monitoring Manager Fees

Analyze fees across your portfolios

- Dimensions
 - Analyze by Asset Class, Private vs. Public, Manager
 - Fee types
 - Management Fees (Inv Advisory Fees)
 - Carried Interest/Incentive Fees
 - Partnership Expense
 - Current Year vs. Last Year
- Summary Reports
- Drill Down Reports
- Customization vs. Comparability
- Considerations
 - Equity method of accounting vs Cost
 - Agreed fee detail categories
 - Managers’ willingness to provide fee details

BNY MELLON		Fee Analysis			
Category	Total Fees	Investment Advisory Fees	Carried Interest	Partnership Expense	
Total	-100,653,997.88	-76,751,164.82	-13,728,521.72	-10,135,541.45	
ABSOLUTE RETURN	-11,374,451.98	-11,374,451.98			
FIXED INCOME	-19,080,580.56	-18,186,413.18	-134,003.00	-760,024.00	
PRIVATE EQUITY	-34,196,328.81	-13,814,725.09	-13,921,348.16	-6,460,257.56	
PUBLIC EQUITY	-17,193,220.98	-17,155,445.90			
REAL ESTATE	-8,956,408.53	-7,191,571.29	7,015.07	-1,771,852.31	
REAL RETURN	-9,853,007.02	-9,028,557.38	319,812.37	-1,143,407.58	



Manager Fees and Performance

- Support analysis by manager or composite
- Customize heat map tolerance level vs benchmark
- Alternate between daily and monthly views
- Toggle between manager, benchmark and excess returns
- Tailor your view with additional standard and custom time periods
- Supports manager fee impact analysis
- Drill down to understand sources of performance, risk/return stats, exposures

The screenshot displays the BNY Mellon NEXEN performance dashboard. The interface includes navigation tabs (Dashboards, Accounts, Portfolios, Transactions, Resources, Risk & Compliance, Communications, Reporting, Admin) and various filters (Choose accounts, Hierarchy, Account for % of Total, Heat Map, Periodicity, View). The main table shows performance data for various accounts, including TOTAL DOMESTIC EQUITY, MANAGER 1-8, TRANSITION ACCOUNT, TOTAL INTERNATIONAL EQUITY, TOTAL FIXED INCOME, and TOTAL PLAN. The table columns include Account Name, Tolerance vs BM, Market Value, Index, % of Total, Inception Date, and performance metrics for Month, 3 Months, Fiscal YTD, 1 Year, 3 Years, 5 Years, ITD, and Manager Fees 1 Year. A legend at the bottom indicates performance status: Underperformed 2x Tolerance (red), Underperformed (orange), Within Tolerance (yellow), Outperformed (green), Outperformed 2x Tolerance (dark green), and Period incomplete or BM Unassigned (grey).

Account Name	Tolerance vs BM	Market Value	Index	% of Total	Inception Date	Month	3 Months	Fiscal YTD	1 Year	3 Years	5 Years	ITD	Manager Fees 1 Year
TOTAL DOMESTIC EQUITY	0.50	2,065,092,712		24.8	04-01-84	-7.51	-5.04	-1.04	5.77	10.77	9.95	11.22	0.05
MANAGER 1	0.50	177,347,146	Russell 2000 Index	2.1	10-01-99	-10.00	-8.59	-8.51	3.40	11.38	9.00	10.04	0.06
Russell 2000 Index					10-01-99	-10.86	-9.26	-7.67	1.85	10.68	8.01	8.27	
Excess Return VS Russell 2000 Index					10-01-99	0.86	0.66	1.16	1.54	0.70	0.99	1.77	
MANAGER 2	0.50	229,228,204	Russell Midcap Value Index	2.8	07-01-12	-8.63	-9.55	-8.83	-0.98	8.26	6.48	11.01	0.05
MANAGER 3	0.50	133,112,738	Russell 3000 Growth Index	1.6	07-01-11	-9.49	-5.73	-2.10	7.90	11.18	10.84	12.67	0.05
MANAGER 4	0.50	18,587,378	Russell 3000 Value Index	0.2	07-01-11	-4.73	-3.35	0.24	4.17	9.92	8.39	10.92	0.05
MANAGER 5	0.50	123,662,997	S&P MidCap 400 Index	1.5	08-01-14	-9.54	-7.58	-5.92	2.22	10.28		8.91	0.04
MANAGER 6	0.50	280,657,341	S&P 500 - Total Return Index	3.4	07-01-16	-6.42	-4.70	-1.39	5.44			10.78	0.02
MANAGER 7	add	128,845,309	S&P 500 - Total Return Index	1.5	07-01-16	-3.78	-1.17	2.47	10.51			16.29	0.02
TRANSITION ACCOUNT	add	50,496		0.0	07-01-11	0.17	0.50	0.68	1.79	2.48	79.85	51.07	0.05
MANAGER 8	0.50	975,594,528	S&P 500 - Total Return Index	11.7	07-01-01	-6.82	-3.40	0.19	7.52	11.50	11.31	7.21	0.05
TOTAL INTERNATIONAL EQUITY	0.60	2,372,500,196	MSC ACWI Ex US	28.5	07-01-00	-8.39	-9.63	-7.72	-5.65	6.03	3.03	2.85	0.07
TOTAL FIXED INCOME	0.40	3,894,306,949	BC Aggregate Bonds Index	46.7	04-01-84	-0.33	0.52	1.09	1.59	5.01	4.44	7.55	0.03
TOTAL PLAN	0.20	8,332,299,857	Policy BM	100.0	04-01-84	-3.40	-2.41	-1.02	3.12	7.77	6.57	9.11	0.06



From Monitoring Fees to Managing Fees

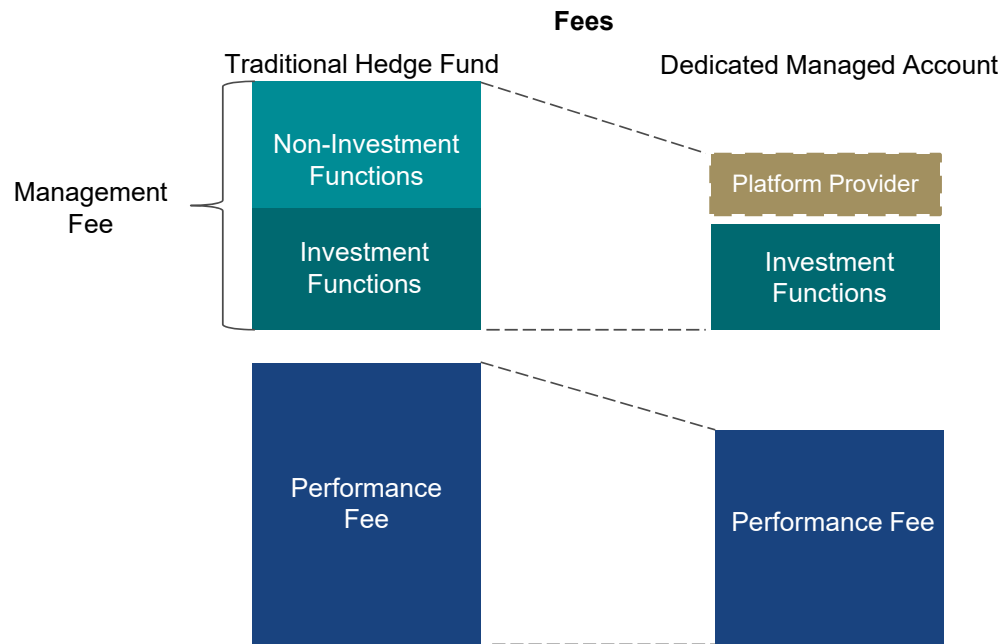
Different approaches to controlling costs

- Active to Passive
- Separately managed to commingled fund
- Commingled fund to Dedicated Managed Account
- Different providers offer different services:
 - Benchmark costs
 - Analyze trading expenses
 - Analyze private investment fees and expenses:
 - in line with IM or LP Agreements?



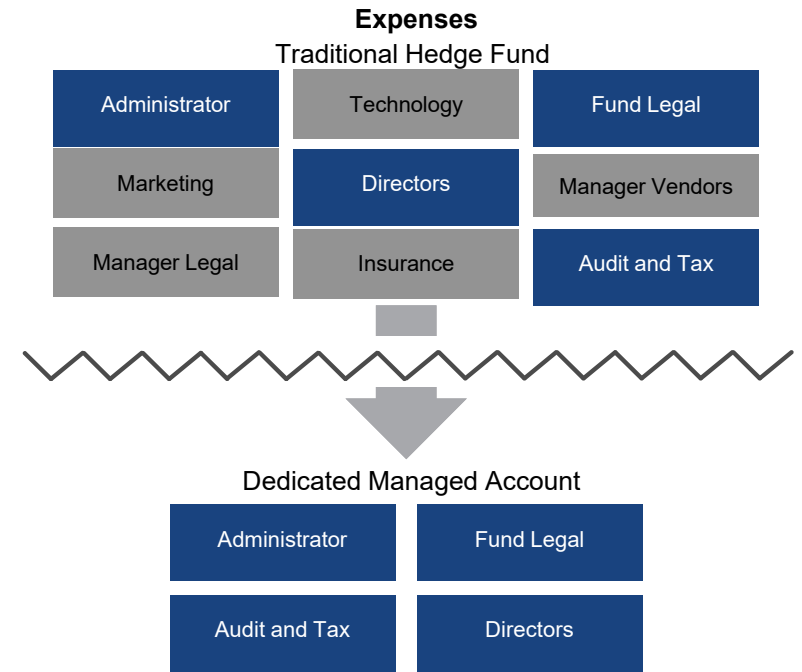
Manager and Expense Fees

Dedicated Managed Accounts provide opportunity to understand and control fund expenses and negotiate lower management fees and performance fees



Key Concepts

- DMA operating model reduces burden on manager and helps support reduced fees
- Customized mandates = customized fees
- Terms structured to better align with investor's objectives (e.g. hurdles, clawbacks, etc.)



Key Concepts

- Complete expense transparency in DMA
- Only DMA related expenses typically allowed (e.g. audit, admin, legal)
- Use of platform service providers can create economies of scale



Hedge Fund Dedicated Managed Accounts (DMA)

What is driving the change in investment structures?



Manage Costs



Customize Strategies



Increase Control

Reduced Manager Fees

Allow for negotiation and customization of manager fees

Portfolio Transparency

Daily position level detail aids portfolio construction, improves risk management and enables guideline monitoring

Customized Mandates

Flexibility in mandate design, implementation of custom strategies and emerging manager protections

Cash Efficiency

Ability to notionally fund accounts enables more efficient use of cash

Expense Transparency

Transparency and control of fund level expenses and ability to prohibit pass through charges from managers

Service Provider Fees

Buying power may be leveraged to negotiate lower rates within a consolidated service provider model

Asset and Cash Control

Managers no longer control cash or asset movement thereby reducing potential operational and fraud risk

Counterparty Exposure

Ability to control and actively monitor counterparty exposure improves risk mitigation

Best Practices for Fee Transparency

- Coordination with Investment Managers
 - Alignment of interest between investors and investment managers
 - Dialogue on importance of all elements of fees (e.g. expenses as a drag on returns)
 - Comparison of fee structures to assess value for underlying investor
- Industry move toward comprehensive reporting standards
 - Move toward transparent cost disclosures globally for investors (pension, endowment and foundations, investment managers, broker-dealers, private wealth clients, etc.)



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